The Maryland Clean Energy Incentive Act
Synopsis of H.B. 20/S.B. 670 as Enacted

Sponsors: *H.B. 20: Del. Casper R. Taylor, Jr., Speaker of the House;*
S.B. 670: Sen. Christopher Van Hollen

The tax incentives for businesses and individuals under the new legislation include –

- Suspension of Maryland's 5% sales tax on energy-saving new clothes washers, refrigerators, and room air conditioners carrying the ENERGY STAR label developed by the U.S. Environmental Protection Agency and the Department of Energy;
- Reductions in the state titling tax for new cars and light trucks of up to $2,000 for electric vehicles and up to $1,500 for efficient new gasoline-electric hybrid vehicles;
- Suspension of sales tax on purchases of highly efficient new heating and central air conditioning equipment and fuel cells for generating heat and electricity in buildings;
- Income tax credits of up to $2,000 for the purchase and installation of solar energy equipment; and
- Income tax credits for the production and sale of electric power from wind energy, landfill methane, and biomass combustion, including energy crops and poultry litter, and biomass co-fired with coal.

Except where noted otherwise below, these incentives will generally be available for purchases and investments made between July 1, 2000, and December 31, 2004, and production tax credits will run for 10 years. The incentives will expire after their most beneficial effects have been realized.

Section 1 of the bill provides for the suspension of state sales tax for the next three to four years on purchases of certain energy-saving appliances and equipment, clean and efficient motor vehicles, and distributed clean power generation equipment.

Reductions in sales tax can provide an effective and easily administered method of encouraging consumers to make more energy-efficient purchases. A product's up-front cost remains an important issue for consumers, even when comparisons of life-cycle costs clearly favor more energy-efficient products.

The following products would qualify for full or partial suspension of tax --

- Clothes washers, refrigerators, and room air conditioners carrying the ENERGY STAR label developed by the US Environmental Protection Agency and the Department of Energy (See p. 4 for a sample of the ENERGY STAR logo.);
- electric and hybrid-electric cars and light trucks;
- highly efficient gas and electric heating and cooling systems; and
- fuel cell electric generating equipment.

Appliances. The very highest efficiency clothes washers, refrigerators, and room air conditioners are authorized for sales tax exemption. During 1998, ENERGY STAR products captured just 4.5% of sales of new clothes washers in Maryland, 12% of sales of room air conditioners, and 15% of sales of refrigerators. It should be noted that new, more stringent energy efficiency standards will go into effect nationwide in October 2000 for room air conditioners and in July 2001 for refrigerators. ENERGY STAR criteria for these two products are also expected to be adjusted upward at that time, and the ENERGY STAR share of the market for new refrigerators and room air conditioners is likely to fall back below 10%. For this reason, the effective dates for the sales tax incentives are July 1, 2000 for clothes washers; January 1, 2001 for room air conditioners; and July 1, 2001 for refrigerators.

Light vehicles. Electric vehicles, including vehicles powered by fuel cells, would qualify for a reduction of state titling tax of up to $2,000. Efficient hybrid-electric vehicles (combining fossil fuel, electric storage, and regenerative braking) would qualify for reductions on two sliding scales, one based upon the amount of power that can be drawn from the vehicle's rechargeable electric system, and the second based upon the amount of power supplied by regenerative braking, a major innovation in energy efficiency. Tax reductions range from a low of $125 to a high of $1,500 when both scales are combined. To qualify, each vehicle must also meet the vehicle exhaust standards established in Maryland for gasoline-powered passenger cars.

Heating and cooling systems. The following advanced high-efficiency electric and gas equipment would qualify for sales tax suspension –

- central air conditioners with an efficiency of at least 13.5 SEER;
- electric heat pumps with a heating efficiency of at least 7.5 HSPF and a cooling efficiency of at least 13.5 SEER;
- advanced natural gas water heaters with an Energy Factor of at least 0.65;
- electric heat pump hot water heaters with an Energy Factor of at least 1.7; and
- natural gas heat pumps with a coefficient of performance for heating of at least 1.25 and for cooling of at least 0.70.

Fuel cell electric generating equipment. The purchase of new fuel cells – equipment using an electrochemical process to generate electricity and heat – would qualify for suspension of sales tax. A qualifying device must have a generating capacity of at least 2 kilowatts and an electricity-only generation efficiency of at least 35%.

Section 2 of the bill provides state investment tax credits for purchase and installation of solar energy equipment.

Tax incentives in the form of credits against state income tax liability will encourage more widespread use of solar energy technology in buildings.

Rooftop solar energy systems. The purchase and installation of new rooftop solar photovoltaic systems would qualify for a credit of 15%, up to a maximum of $2,000. Similarly, the purchase of new rooftop solar water heating systems would qualify for a credit of 15%, up to a maximum of $1,000. All photovoltaic system equipment must have UL or equivalent certification to be eligible. Solar water heating systems must have SRCC certification to be eligible.

Section 3 of the bill provides state tax credits for the production of electric power from renewable sources of energy.

Production tax credits are an efficient way to support technologies that are on the verge of competitiveness in the marketplace, and are based on actual power deliveries during the first 10 years of service. Existing federal production tax credits for electricity generated by wind and biomass were recently extended through 2001 and expanded to include power generated by poultry litter. Investments in wind and biomass-based power systems in Maryland would qualify the owner for a state tax credit for electric power produced and sold to an unrelated person.

Wind power. Electric power generated in Maryland by newly installed wind turbines would be eligible for a 0.85-cent-per-kilowatt-hour tax credit, one-half of the current federal tax credit.

Biomass power. Electric power generated in Maryland by newly installed facilities fueled exclusively by biomass (organic plant material) would be eligible for a 0.85-cent-per-kilowatt-hour tax credit, one-half of the current federal tax credit. Where electricity is produced from biomass that is co-fired at coal-burning powerplants, a credit of 0.5 cent per kilowatt-hour would be authorized. Biomass qualifying for the credit would include any solid, nonhazardous, cellulosic waste material (segregated from other waste materials), such as those derived from mill residues, waste pallets, crates, landscape or right-of-way trimmings, agricultural crop byproducts, and poultry litter. Unsegregated municipal waste, residues from old-growth timber harvest, and post-consumer wastepaper suitable for recycling would not be eligible energy sources.

Landfill methane. Methane from decomposition within landfills and the anaerobic digestion process at wastewater treatment plants is a significant renewable resource in Maryland that often goes unused. What's more, methane has heat-trapping properties that are about 50 times more powerful than carbon dioxide, making it a major target of greenhouse gas reduction efforts.

Section 4 of the bill authorizes the Maryland Energy Administration to develop a voluntary labeling program, in cooperation with manufacturers and retailers, to provide in-store identification and promotion of products that are eligible for Maryland tax incentives.

This is an important feature of the bill. Building consumer and taxpayer awareness of the incentives provided by the act will be key to influencing purchasing and investment decisions in the Maryland marketplace.

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